

AKRON CARE CENTER, INC.

INDEPENDENT AUDITORS' REPORT  
BASIC FINANCIAL STATEMENTS,  
REQUIRED SUPPLEMENTARY INFORMATION,  
AND SCHEDULE OF FINDINGS

JUNE 30, 2012 AND 2011



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AKRON CARE CENTER, INC.

AKRON CARE CENTER, INC.

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Brad Britton	President	Dec 2013
Dan Rexwinkel	Vice President	Dec 2015
Iola Frerichs	Secretary	Dec 2013
Margaret Correia	Member	Dec 2013
Bob Watson	Member	Dec 2015
Brandon Verros	Administrator	Indefinite
Chad Ericson	Representative, City of Akron	Appointed by City

AKRON CARE CENTER, INC.

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Akron Care Center, Inc.  
Akron, Iowa

We have audited the accompanying statement of net assets of Akron Care Center, Inc., a component unit of the City of Akron, Iowa, as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended, which collectively comprise the Care Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Care Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Akron Care Center, Inc. as of June 30, 2012 and 2011, and the respective changes in financial position and its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 10, 2012, on our consideration of Akron Care Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Akron Care Center, Inc. has not presented management's discussion and analysis but has presented budgetary comparison information on page 14 to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the budgetary comparison as required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

  
Certified Public Accountants

AKRON CARE CENTER, INC.

STATEMENTS OF NET ASSETS

JUNE 30, 2012 AND 2011

ASSETS

	<u>2012</u>	<u>2011</u>
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$ 525,882	\$ 97,746
Restricted Cash	1,076,765	-
Board Designated Cash	38,582	39,501
Investments - Certificate of Deposit	-	5,277
Accounts Receivable (Less Allowance for Doubtful Accounts \$57,000 and \$42,000 for 2012 and 2011)	205,640	223,333
Promises to Give (Less Allowance for Doubtful Accounts \$26,860 and \$0 for 2012 and 2011)	137,541	-
Due From Other Governments	350,000	-
Prepaid Expenses	11,417	22,599
Total Current Assets	2,345,827	388,456
<u>NON-CURRENT ASSETS</u>		
Debt Issuance Costs	17,744	-
Promises to Give	406,743	-
Land - Note 6	98,004	23,004
Construction in Progress - Note 6	769,089	269,433
Other Capital Assets, Net of Depreciation - Note 6	743,810	796,054
Total Noncurrent Assets	2,035,390	1,088,491
Total Assets	4,381,217	1,476,947

LIABILITIES

<u>CURRENT LIABILITIES</u>		
Accounts Payable	260,148	129,189
Accrued Salaries and Payroll Taxes Payable	43,736	30,358
Accrued Compensated Absences Payable - Current	7,079	5,795
Accrued Interest Payable	18,318	12,723
City of Akron Notes Payable - Current - Note 7	55,000	-
Peoples Bank Note Payable - Current - Note 8	21,229	20,400
Total Current Liabilities	405,510	198,465
<u>NON-CURRENT LIABILITIES</u>		
Accrued Compensated Absences Payable - Long-Term	21,238	17,385
City of Akron Notes Payable - Long-Term - Note 7	1,335,000	140,000
Peoples Bank Note Payable - Long-Term - Note 8	284,621	305,850
Total Non-Current Liabilities	1,640,859	463,235
Total Liabilities	2,046,369	661,700

NET ASSETS

Invested in Capital Assets, Net of Related Debt	1,131,818	762,241
Restricted for Construction of New Care Facility	1,781,860	-
Unrestricted	(578,830)	53,006
Total Net Assets	\$ 2,334,848	\$ 815,247

See Accompanying Notes to Financial Statements



AKRON CARE CENTER, INC.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>OPERATING REVENUES</u>		
Patient and Resident Revenue	\$ 2,422,686	\$ 2,287,553
Meals	4,535	4,781
Miscellaneous Income	36,610	27,794
	<hr/>	<hr/>
Total Operating Revenues	2,463,831	2,320,128
 <u>OPERATING EXPENSES</u>		
Administrative Expenses	400,056	353,458
Dietary Services	285,913	273,998
General Services	235,694	205,590
Patient Care Services	1,455,178	1,237,208
Depreciation	22,972	23,929
Apartments - Village South	23,488	23,407
Apartments - Village North	43,608	55,642
	<hr/>	<hr/>
Total Operating Expenses	2,466,909	2,173,232
 <u>OPERATING INCOME (LOSS)</u>	(3,078)	146,896
 <u>NON-OPERATING REVENUES</u>		
Donations and Memorials	1,172,088	119,407
Donations from City of Akron	350,000	-
Interest Income	591	559
Gain on Sale of Investments - Stock	-	4,396
	<hr/>	<hr/>
Total Non-Operating Revenues	1,522,679	124,362
 Changes in Net Assets	1,519,601	271,258
 Net Assets at Beginning of Year	815,247	543,989
	<hr/>	<hr/>
Net Assets at End of Year	<u>\$ 2,334,848</u>	<u>\$ 815,247</u>

See Accompanying Notes to Financial Statements

AKRON CARE CENTER, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash Received from Patient and Resident Services	\$ 2,408,452	\$ 2,193,435
Cash Paid to Suppliers for Goods and Services	(765,048)	(768,800)
Cash Paid to Employees for Services	(1,475,841)	(1,323,674)
Donations Received	525,945	119,407
Other Operating Revenues	41,145	32,575
	<u>734,653</u>	<u>252,943</u>
Net Cash Provided By Operating Activities		
	<u>734,653</u>	<u>252,943</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Acquisition and Construction of Capital Assets	(439,657)	(315,491)
Proceeds from City of Akron Note	1,250,000	-
Payment of Bond Issuance Costs	(17,744)	-
Principal Paid on Bank Note Payable	(20,400)	(19,450)
Interest Paid on Bank Note Payable	(8,738)	(12,310)
	<u>763,461</u>	<u>(347,251)</u>
Net Cash Provided (Used) By Capital and Related Financing Activities		
	<u>763,461</u>	<u>(347,251)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of Investments - Certificate of Deposit	-	(5,167)
Sale of Investments - Certificate of Deposit	5,277	15,748
Interest Received	591	559
	<u>5,868</u>	<u>11,140</u>
Net Cash Provided By Investing Activities		
	<u>5,868</u>	<u>11,140</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,503,982	(83,168)
Cash and Cash Equivalents at Beginning of Year	<u>137,247</u>	<u>220,415</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,641,229</u>	<u>\$ 137,247</u>
<u>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS</u>		
Cash and Cash Equivalents	\$ 525,882	\$ 97,746
Restricted Cash	1,076,765	-
Board Designated Cash	38,582	39,501
	<u>1,641,229</u>	<u>137,247</u>
Total Cash and Cash Equivalents	<u>\$ 1,641,229</u>	<u>\$ 137,247</u>

(Continued)

Supplemental Disclosure for Non-Cash Activities:

During FY 2012 land valued at \$75,000 was donated for the construction of the new care center.

AKRON CARE CENTER, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2012 AND 2011

(Continued)

	<u>2012</u>	<u>2011</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Operating Income (Loss)	\$ (3,078)	\$ 146,896
Adjustments to Reconcile Operating Income (Loss) to		
Net Cash Provided By Operating Activities:		
Donations	1,097,088	119,407
Interest Expense	14,333	16,608
Bad Debt Expense	58,787	35,861
Depreciation	52,244	52,828
Changes in Assets and Liabilities:		
(Increase) in Accounts Receivable	(14,234)	(129,979)
(Increase) in Promises to Give	(571,143)	-
(Increase) Decrease in Prepaid Expenses	11,182	(11,066)
Increase in Accounts Payable	70,959	55,896
Increase (Decrease) in Accrued Salaries and Payroll Taxes Payable	13,378	(27,542)
Increase (Decrease) in Accrued Compensated Absences Payable	5,137	(5,966)
Total Adjustments	<u>737,731</u>	<u>106,047</u>
Net Cash Provided By Operating Activities	<u>\$ 734,653</u>	<u>\$ 252,943</u>

See Accompanying Notes to Financial Statements

AKRON CARE CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

Note 1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization is a component unit of the City of Akron, Iowa established to provide and maintain health care facilities, and to promote the general health of the community. The Care Center is governed by a Board of Trustees in accordance with Chapter 392 of the Code of Iowa and Akron City Ordinance. Prior to July 1, 1986, the Care Center operated as Akron City Hospital.

Akron Care Center, Inc. is licensed as a nursing facility with a 48 bed capacity. Substantially all of the Care Center's patients and residents are local residents and a majority of them are entitled to benefits under the Medicaid/Title XIX program. Akron Care Center, Inc. also operates two senior living apartment complexes separate from the licensed facility. For the years ended June 30, 2012 and 2011, Title XVIII and Title XIX revenue, as a percentage of total revenue, was 55% and 58%, respectively.

Akron Care Center, Inc.'s financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Akron Care Center, Inc. has included all funds, organizations, agencies, boards, commissions and authorities. The Care Center has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Care Center are such that exclusion would cause the Care Center's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of Akron Care Center, Inc. to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on Akron Care Center, Inc. Akron Care Center, Inc. has no component units which meet the Governmental Accounting Standards Board criteria. Akron Care Center, Inc. is a component unit of the City of Akron, Iowa.

B. Basis of Presentation

The accounts are organized as a single special purpose government and accounted for as a business-type activity. Business-type activities are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

C. Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Akron Care Center, Inc. applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

AKRON CARE CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

Note 1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Cont.)

D. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the Statement of Net Assets:

Cash and Cash Equivalents – Akron Care Center, Inc. considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Accounts Receivable – Accounts receivable are shown at the amount expected to be collected after determining the allowance for doubtful accounts based on an aging of all individual patient balances.

Capital Assets – Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations. Donated fixed assets are recorded at their estimated fair value at the time received.

Reportable capital assets are defined by Akron Care Center, Inc. as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Buildings and Improvements	\$ 3,000
Equipment and Vehicles	3,000

Capital assets of Akron Care Center, Inc. are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings and Improvements	10 - 50
Equipment and Vehicles	3 - 25

Interest is capitalized on assets, other than infrastructure assets, acquired with tax-exempt debt. The amount of interest capitalized is the net interest expense incurred (interest expense less interest income) from the date of the borrowing until completion of the project. As of June 30, 2012 and 2011 interest capitalized was \$15,049 and \$2,120, respectively.

AKRON CARE CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

Note 1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Cont.)

F. Statement of Revenues, Expenses and Changes in Net Assets

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as non-operating revenues and expenses.

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers and a provision for uncollectable accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Revenue from services provided to Medicaid (Title XIX) nursing care patients under an agreement with the Iowa Department of Human Services is recorded at reimbursement rates determined by the Department. These rates are below the Care Center's established rates.

Note 2 - CASH AND INVESTMENTS

The Care Center's deposits in banks at June 30, 2012 and 2011 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

A Health Care Facility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidence of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; common stock; perfected repurchased agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

Interest Rate Risk - This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Care Center does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk - The Care Center has no policy in place regarding custodial credit risk and deposits with financial institutions, however, deposits are insured by the state sinking fund, which provides for additional assessments against depositories to avoid loss on public funds.

Note 3 - ESTIMATED AMOUNTS DUE FROM AND DUE TO CONTRACTING AGENCIES

The Care Center has entered into a reimbursement agreement for nursing services rendered to Medicaid patients. The Medicaid program has adopted a prospective per diem reimbursement method which represents full payment on submitted claims.

Note 4 - OPERATING LEASES

The Care Center leases various equipment under operating leases. Rental expense under these leases was \$2,444 and \$2,270 for the years ended June 30, 2012 and 2011, respectively.

Note 5 - RELATED PARTY TRANSACTIONS

The Care Center purchases its electricity, water, sewer and garbage services from the City of Akron's municipal utility. The total amounts purchased for the years ended June 30, 2012 and 2011 were \$33,904 and \$33,500, respectively.

AKRON CARE CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

Note 6 – CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2012 and 2011 was as follows:

	Balance Beginning of Year	Additions	Retirements	Balance End of Year
Fiscal year ended June 30, 2012:				
Capital assets not being depreciated:				
Land	\$ 23,004	\$ 75,000	\$ -	\$ 98,004
Construction in progress	269,433	499,656	-	769,089
Total capital assets not being depreciated	<u>292,437</u>	<u>574,656</u>	<u>-</u>	<u>867,093</u>
Capital assets being depreciated:				
Building and improvements	1,838,198	-	-	1,838,198
Equipment and furnishings	291,082	-	-	291,082
Total capital assets being depreciated	<u>2,129,280</u>	<u>-</u>	<u>-</u>	<u>2,129,280</u>
Less accumulated depreciation for:				
Building and improvements	1,096,201	41,718	-	1,137,919
Equipment and furnishings	237,025	10,526	-	247,551
Total accumulated depreciation	<u>1,333,226</u>	<u>52,244</u>	<u>-</u>	<u>1,385,470</u>
Total capital assets being depreciated, net	<u>796,054</u>	<u>( 52,244)</u>	<u>-</u>	<u>743,810</u>
Total capital assets, net	<u>\$ 1,088,491</u>	<u>\$ 522,412</u>	<u>\$ -</u>	<u>\$ 1,610,903</u>
Fiscal year ended June 30, 2011:				
Capital assets not being depreciated:				
Land	\$ 23,004	\$ -	\$ -	\$ 23,004
Construction in progress	-	269,433	-	269,433
Total capital assets not being depreciated	<u>23,004</u>	<u>269,433</u>	<u>-</u>	<u>292,437</u>
Capital assets being depreciated:				
Building and improvements	1,806,423	31,775	-	1,838,198
Equipment and furnishings	276,799	14,283	-	291,082
Total capital assets being depreciated	<u>2,083,222</u>	<u>46,058</u>	<u>-</u>	<u>2,129,280</u>
Less accumulated depreciation for:				
Building and improvements	1,053,975	42,226	-	1,096,201
Equipment and furnishings	226,423	10,602	-	237,025
Total accumulated depreciation	<u>1,280,398</u>	<u>52,828</u>	<u>-</u>	<u>1,333,226</u>
Total capital assets being depreciated, net	<u>802,824</u>	<u>( 6,770)</u>	<u>-</u>	<u>796,054</u>
Total capital assets, net	<u>\$ 825,828</u>	<u>\$ 262,663</u>	<u>\$ -</u>	<u>\$ 1,088,491</u>

AKRON CARE CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

Note 6 – CAPITAL ASSETS (Cont.)

Reconciliation of Investment in Capital Assets

	Business-Type Activities	
	2012	2011
Land	\$ 98,004	\$ 23,004
Construction in Progress	769,089	269,433
Other Capital Assets, Net of Depreciation	743,810	796,054
City of Akron Note Payable	(173,235)	-
Peoples Bank Note Payable	<u>(305,850)</u>	<u>(326,250)</u>
Investment in Capital Assets, Net of Related Debt	<u>\$ 1,131,818</u>	<u>\$ 762,241</u>

Note 7– CITY OF AKRON NOTES PAYABLE

In February 2009, Akron Care Center had a \$40,000 long-term note with a maturity date of August 2013, interest rate of 0.00% and no set payment schedule determined. In July 2011, the note was extended for 20 years. No principal or interest is due for the first 11 years of the note, and principal payments will be required at least annually beginning July 2023.

In February 2009, the City of Akron advanced to Akron Care Center, Inc. \$100,000 to cover operating expenses. The note was originally due in September 2013, an interest rate of 4.50% and no set payment schedule determined. In July 2011, the note was extended for 20 years. Only interest payments are to be made for the first 11 years. Beginning in July 2023, the Care Center will be required to make principal payments at least annually. The facility made no interest payments during the fiscal year. The following are the maturities for both the above notes over the future fiscal years ending June 30:

Year Ending June 30,	Principal Note #1	Interest @ 0.00%	Principal Note #2	Interest @ 4.50%	Total Principal	Total Interest	Total
2013	\$ -	\$ -	\$ -	\$ 4,862	\$ -	\$ 4,862	\$ 4,862
2014	-	-	-	4,862	-	4,862	4,862
2015	-	-	-	4,862	-	4,862	4,862
2016	-	-	-	4,862	-	4,862	4,862
2017	-	-	-	4,862	-	4,862	4,862
2018 - 2022	-	-	-	24,309	-	24,309	24,309
2023 - 2027	20,000	-	49,366	20,241	69,366	20,241	89,607
2028 - 2031	20,000	-	50,634	18,250	70,634	18,250	88,884
	<u>\$ 40,000</u>	<u>\$ -</u>	<u>\$100,000</u>	<u>\$ 87,110</u>	<u>\$140,000</u>	<u>\$ 87,110</u>	<u>\$227,110</u>

In May 2012 the facility entered into a note payable agreement with the City of Akron, Iowa for \$1,250,000. The note is for the construction of the new nursing home facility. The note has annual principal payments beginning June 2013 with semi-annual interest payments beginning December 2012. The principal amounts vary each year ranging between \$55,000 - \$85,000 with a variable interest rate ranging between 0.65% - 3.75%. The final payment is due in June 2031. The following are the maturities for the construction loan over the future fiscal years ending June 30:



AKRON CARE CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

Note 7 – CITY OF AKRON NOTES PAYABLE (Cont.)

<u>Year Ending</u> <u>June 30,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	0.65%	\$ 55,000	\$ 358	\$ 55,358
2014	0.65%	55,000	358	55,358
2015	1.00%	55,000	550	55,550
2016	1.00%	60,000	600	60,600
2017	1.40%	60,000	840	60,840
2018 – 2022	1.40% - 2.20%	305,000	5,810	310,810
2023 – 2027	2.60% - 3.50%	340,000	10,030	350,030
2028 – 2031	3.50% - 3.75%	320,000	11,812	331,812
Total		<u>\$ 1,250,000</u>	<u>\$ 30,358</u>	<u>\$ 1,280,358</u>

A summary of the debt at June 30, 2012 and 2011 follows:

	<u>2012</u>	<u>2011</u>
Total City of Akron Notes Payable	\$ 1,390,000	\$ 140,000
Less: Current Maturities	( 55,000)	( -)
Balance due, Total City of Akron Notes Payable – Long Term	<u>\$ 1,335,000</u>	<u>\$ 140,000</u>

Note 8 – PEOPLES BANK NOTE PAYABLE

Akron Care Center, Inc. financed through Peoples Bank \$625,000 for the construction of the Village North Apartment Complex, an 8-unit senior living facility completed in December 2003. The note is payable in 120 equal monthly installments of \$6,122 including interest at 3.30%. The note shall be payable solely and only out of the net revenue of the Care Center and shall be a first lien on the future net revenues of the Care Center. The note was refinanced on November 24, 2008 for \$375,000 which is payable in 180 equal monthly installments of \$2,823 including interest at 4.25%.

A summary of the debt at June 30, 2012 and 2011 follows:

	<u>2012</u>	<u>2011</u>
Total Peoples Bank Note Payable	\$ 305,850	\$ 326,250
Less: Current Maturities	( 21,229)	( 20,400)
Balance due, Total Peoples Bank Note Payable – Long Term	<u>\$ 284,621</u>	<u>\$ 305,850</u>

The following are the maturities over the future fiscal years ending June 30:

<u>Year Ending</u> <u>June 30,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	4.25%	\$ 21,229	\$ 12,650	\$ 33,879
2014	4.25%	22,128	11,751	33,879
2015	4.25%	23,087	10,792	33,879
2016	4.25%	24,072	9,807	33,879
2017	4.25%	25,145	8,734	33,879
2018 – 2022	4.25%	142,965	26,430	169,395
2023 – 2024	4.25%	47,224	1,672	48,896
Total		<u>\$ 305,850</u>	<u>\$ 81,836</u>	<u>\$ 387,686</u>

AKRON CARE CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

**Note 9 – LONG-TERM LIABILITIES**

Long-Term liability activity for the years ended was as follows:

June 30, 2012	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	\$ 23,180	\$ 13,555	\$ 8,418	\$ 28,317	\$ 7,079
City of Akron Notes Payable	140,000	1,250,000	-	1,390,000	55,000
Peoples Bank Notes Payable	326,250	-	20,400	305,850	21,229
Long-Term Liabilities	<u>\$ 489,430</u>	<u>\$ 1,263,555</u>	<u>\$ 28,818</u>	<u>\$ 1,724,167</u>	<u>\$ 83,308</u>

  

June 30, 2011	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	\$ 29,146	\$ 6,976	\$ 12,942	\$ 23,180	\$ 5,795
City of Akron Notes Payable	140,000	-	-	140,000	-
Peoples Bank Notes Payable	345,700	-	19,450	326,250	20,400
Long-Term Liabilities	<u>\$ 514,846</u>	<u>\$ 6,976</u>	<u>\$ 32,392</u>	<u>\$ 489,430</u>	<u>\$ 26,195</u>

**Note 10 – PENSION AND RETIREMENT BENEFITS**

The Care Center contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which as established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the Care Center is required to contribute 8.07% of covered salary. Contribution requirements are established by state statute. The Care Center's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$99,821, \$76,508 and \$61,978, respectively, equal to their required contributions for each year.

**Note 11 – RISK MANAGEMENT**

The Care Center is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries to employees, and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Care Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

The Care Center's workers' compensation insurance coverage is purchased from an association of Iowa long-term care providers. The program includes a minimum contribution to cover projected claims and administration costs as well as a potential maximum contribution level. If a member's actual claims for any policy year exceed the claim fund amount included in the minimum contribution, after adjustment for actual payrolls, the member is required to contribute the excess, up to the stated maximum contribution.

Losses for claims in excess of the minimum contributions to the claim fund are accrued when information provided by the Association indicates an assessment is probable and can be reasonably estimated. At June 30, 2012, there were no claims in excess of the minimum contributions to the claim fund.

**Note 12 – CONSTRUCTION COMMITMENT**

The facility entered into a construction contract totaling approximately \$5,562,000 to construct a new nursing home facility. At June 30, 2012, \$311,809 of the project had been completed; the remaining commitment is \$5,250,091.

Financing for the new construction is being provided by funds from the City of Akron, Iowa and USDA Rural Development.

AKRON CARE CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011

Note 13 – CONTINGENCY

On September 22, 2011, the City of Akron was approved for a \$4,000,000 loan from United States Department of Agriculture (USDA) Rural Development. The City of Akron has arranged short-term financing through People's Bank for \$4,000,000. The City of Akron will then loan Akron Care Center, Inc. these funds to finance the construction of a new nursing home facility. Once the project is complete, USDA will pay off the short-term financing through People's Bank. Akron Care Center, Inc. will then be responsible for the payments to the City of Akron who will in turn pay USDA. In July 2012 an advance was made of \$50,001 from People's Bank. No additional advances have been made as of October 10, 2012.

AKRON CARE CENTER, INC.

REQUIRED SUPPLEMENTARY INFORMATION

AKRON CARE CENTER, INC.

AKRON CARE CENTER, INC.

BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES

AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL (CASH BASIS)

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2012

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budgeted Amounts		Final to Actual Cash Basis Variance
				Original	Amended	
<u>OPERATING REVENUES</u>						
Charges for Fees, Services and Loans	\$ 2,463,831	\$ 1,241,634	\$ 3,705,465	\$ 2,164,530	\$ 2,164,530	\$ 1,540,935
<u>OPERATING EXPENSES</u>						
Business Type Expenditures and Principal Payments	2,466,909	260,519	2,727,428	2,031,033	2,031,033	(696,395)
<u>NONOPERATING (REVENUES) EXPENSES</u>	<u>1,522,679</u>	<u>(996,734)</u>	<u>525,945</u>	<u>-</u>	<u>-</u>	<u>525,945</u>
<u>NET CHANGE IN NET ASSETS</u>	<u>1,519,601</u>	<u>(15,619)</u>	<u>1,503,982</u>	<u>133,497</u>	<u>133,497</u>	<u>1,370,485</u>
<u>BALANCE BEGINNING OF YEAR</u>	<u>815,247</u>	<u>(678,000)</u>	<u>137,247</u>	<u>109,388</u>	<u>109,388</u>	<u>27,859</u>
<u>BALANCE END OF YEAR</u>	<u>\$ 2,334,848</u>	<u>\$ (693,619)</u>	<u>\$ 1,641,229</u>	<u>\$ 242,885</u>	<u>\$ 242,885</u>	<u>\$ 1,398,344</u>

See Accompanying Notes to Financial Statements

AKRON CARE CENTER, INC.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

AKRON CARE CENTER, INC.



1009 Iowa Avenue  
P.O. Box 238  
Onawa, IA 51040  
Phone (712) 423-2616  
Fax (712) 423-2626

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees of  
Akron Care Center, Inc.

We have audited the financial statements of Akron Care Center, Inc. as of and for the year ended June 30, 2012, and have issued our report thereon dated October 10, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

The management of Akron Care Center, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Akron Care Center, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Akron Care Center, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Akron Care Center, Inc.'s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies of Akron Care Center, Inc.'s internal control described in the accompanying Schedule of Findings as items II-A-12, II-B-12, II-C-12, II-D-12 to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Akron Care Center, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Care Center's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Care Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Akron Care Center, Inc.'s responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Care Center's responses, we did not audit Akron Care Center, Inc.'s responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information of and use of the officials, employees and constituents of Akron Care Center, Inc. and other parties to whom Akron Care Center, Inc. may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Akron Care Center, Inc. during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*William, T. Company P.C.*  
Certified Public Accountants

Onawa, Iowa  
October 10, 2012

AKRON CARE CENTER, INC.

SCHEDULE OF FINDINGS

JUNE 30, 2012

Part I: Summary of the Independent Auditors' Results

- A. Unqualified opinions were issued on the financial statements.
- B. Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- C. The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

MATERIAL WEAKNESSES:

- II-A-12 Financial Accounting - Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of cash receipts to the cash receipts journal are all done by the same person.

Recommendation – An individual who does not have access to the accounting records should prepare the initial cash receipts listing at the time of opening the mail. This listing should be compared to the cash receipts journal and the bank deposits on a periodic basis by the Administrator or a different accountant.

Response – Due to the limited number of office employees, segregation of duties is very difficult. However, we will have the manager review receipts, posting, and payroll on a test basis.

Conclusion – Response accepted.

- II-B-12 Financial Reporting – During the audit, we identified material amounts of receivables, payables and capital asset additions not adjusted in the Care Center's financial statements. Adjustments were subsequently made by the Care Center to properly include these amounts in the financial statements.

Recommendation – The Care Center should implement procedures to ensure all receivables, payables and capital asset additions are identified and included in the Care Center's financial statements.

Response – We will revise our current procedures to ensure the proper amounts are recorded in the financial statements in the future.

Conclusion – Response accepted.

- II-C-12 Payment of Paid Time Off – During the audit, we identified 100% of Paid Time Off (PTO) was being paid out to employees who have resigned or have provided advance written notice. According to the policy in the current Employee Handbook, PTO is to be paid out at 75%.

Recommendation – The Care Center should correctly pay out PTO at 75%.

Response – We will have the Board review our employee handbook policies and determine what percentage to pay PTO to employees who leave. We will then follow that policy.

Conclusion – Response accepted.

AKRON CARE CENTER, INC.

SCHEDULE OF FINDINGS (Cont.)

JUNE 30, 2012

Part II: Findings Related to the Financial Statements (Cont.)

MATERIAL WEAKNESSES (Cont.):

- II-D-12 Fundraising Committee – During the audit, we identified no formal written minutes of the Fundraising Committee, and the fundraising bank account was not being reconciled.

Recommendation – We recommend the Fundraising Committee have formal written minutes documenting amounts pledged and collected, along with a bank reconciliation of the fundraising account. This committee should give a report to the Board of Trustees on a quarterly basis.

Response – The Board of Trustees will discuss appropriate procedures with the Fundraising Committee.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Other Findings Related to Required Statutory Reporting:

- (A) Questionable Expenses – No questionable expenses that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (B) Official Depositories – A resolution naming official depositories has been adopted by the Care Center. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2012.
- (C) Travel Expense – No disbursements of money for travel expenses of spouses of Care Center officials or employees were noted.
- (D) Board Minutes – No transactions were found that we believe should have been approved in the Care Center's minutes but were not.
- (E) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Care Center's investment policy were noted.
- (F) Business Transactions – No business transactions were noted between the Care Center and Care Center officials.
- (G) Budget – Expenditures during the year ended June 30, 2012 exceeded the amount budgeted; however, it is part of the business-type activities budget and for budgeting purposes we compare the actual expenditures for the entire City of Akron to the total business-type activities budget.